

Planning for Scotland's future

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Abstract: Twenty years on from the creation of Audit Scotland, outgoing Auditor General Caroline Gardner reflects on what she has learned during her time in the role. She lays out the challenges that remain for the NHS in a time of pandemic; the realities of managing the fiscal framework to protect public services from the financial effects of Covid-19; and how the government's planning needs to match its vision for Scotland's future.

I A new architecture

Audit Scotland is inextricably linked to the creation of the Scottish Parliament. It is part of the new architecture designed to give more choice and more accountability for Scotland's public spending and public services. But there have been huge changes in the financial powers of the Parliament since I took up my post in 2012, along with a great deal of reform, leading to a very different landscape in eight short years.

Now the shock of Covid-19 has highlighted the challenges facing Scotland, such as the deep and long-standing effects of inequality. At the same time, it has masked others, like the sustainability of the NHS and the need for a plan to ensure Scotland can balance its books and spend public money effectively when we emerge from this crisis.

II The Covid-19 effect

If it wasn't clear before, the pandemic has taught us how interconnected we are, locally, nationally and globally. It has shown how vulnerable we are as individuals and as a society, and how we all rely on others for our basic existence – the supermarket workers, couriers, refuse collectors, warehouse workers, and social care staff. And, of course, the nurses. All among the poorest paid in a painfully unequal society. That inequality has grown over a decade of austerity and a glacial recovery from the global financial crisis. And now it appears we are on track for a deep recession whose effects are likely to be felt for many years.

Covid-19 has also shown that only governments can respond on the necessary scale. The evidence is the NHS response to the immediate effects of the disease; the public health response to contain, limit and eventually eradicate it; and the economic and social response to rebuild for the future. The importance of the nation state has never been so keenly felt, with governments stepping in overnight to protect lives and livelihoods. We've seen a head-spinning pivot in favour of big government, to the extent that the state is paying at least part of the wages of around a third of workers – extraordinary in itself - and universal basic income has been taken out of a box deemed too radical and unaffordable and is being seriously discussed (although at the time of writing the UK government has ruled it out despite the First Minister's words of support).

The need for parentheses in much of this is part and parcel of the uncertainty the crisis has brought. What's clear is that the Scottish Government has responded quickly and at scale, reorienting its organisational structures, resources and governance arrangements to react to the pandemic. Less clear is how serious the impact of Covid-19 will be on Scotland's public finances. That's partly because there's no clear end to the crisis in sight, or what the policy response will be, but also because of the complex interaction between the devolved powers of the Scottish Parliament and the powers still reserved to Westminster.

By far the greater part of the additional public spending in Scotland has come from UK government spending, in particular the Coronavirus Job Retention Scheme. Some additional funding has come to the Scottish Government through Barnett consequentials for devolved areas like health - around £3.6 billion at the time of writing, although there has been some confusion about the amounts involved, making it more difficult for the Scottish Government to plan.

Scottish ministers have responded with significant increases in public spending in areas such as health, and non-domestic rates relief and grants to support businesses staggering under the weight of the effects of lockdown. At the same time, the costs of the new social security powers are likely to rise significantly, and Scottish Government has delayed rolling out planned new benefits just as it took control of a much bigger pot of social security spending. Ministers are quite understandably spending to safeguard the country's well-being, but at the same time Holyrood's devolved tax revenues from income tax and LBTT are shrinking. And that is a serious challenge.

The Scottish Government's new financial powers are substantial, but they are inadequate to deal with an economic crisis on this scale. It is unable to borrow to fund public expenditure beyond the very narrow limits included in the fiscal framework, and all the additional public spending is being financed by increasing UK national debt. The impact on Scotland's public finances will depend on the answers to two big questions: how the UK Government chooses to repay this debt; and how far the impact on Scotland's economic performance mirrors or diverges from the impact in the rest of the UK. The Scottish Fiscal Commission has already suggested that Scotland could see a larger negative shock than the rest of the UK because of the importance of tourism and North Sea oil and gas to our economy. And we've already seen early indications that the services and manufacturing arms of our economy could lag other parts of the UK in terms of the pace of recovery.

In short, though, we already know that the scale of the shock and the limits of the fiscal framework mean it will be very difficult for the Scottish Government to balance spending against the available funding in this and future financial years.

The impact on Scotland's public services is also uncertain. The Government's emergency response has understandably focused so far on health services such as intensive care provision, PPE and testing capacity, and on mitigating the economic shock caused by lockdown. It's clear that we will need to find ways to live with Covid-19 for the foreseeable future, and the Scottish Government has set out in its *Framework for Decision-Making* a broad approach to suppressing and minimising the harm caused by the virus while seeking to ease the lockdown.

This will pose significant challenges for public services in the short term. There's a need to continue to clearly communicate about physical distancing and hand and respiratory hygiene while strengthening the Test and Protect regime, especially the services needed to encourage and enable people to self-isolate for short (but perhaps repeated) periods. Then there's the task of resuming non-Covid-related health services to minimise the harm caused by people being unable or unwilling to access the diagnoses and treatment they need. And finally, and perhaps most difficult of all, is the safe re-opening of early years and school services, to reduce the harm to children and enable parents to return to work. For the public services on the front line – our health and care services, education staff and the Scottish Government civil servants oiling the cogs behind the First Minister - all of this is being done for the first time under quite extraordinary pressure. But that does not mean decisions taken now should be beyond rigorous scrutiny.

Flexibility and pragmatism have been key to keeping public services running during the crisis, but good governance is as important as ever.

III Pre-Covid-19 challenges remain

These immediate challenges have so far been all-consuming, but in the longer term the Scottish Government's Covid-19 decision-making framework recognises the need to shape and adjust to a new normal, including:

- Rebuilding Scotland's economy, overcoming inequality and advancing human wellbeing
- Working with Scotland's communities to build cohesion and mutual support
- Working with and learning from governments around the world.

These commitments are in line with the Scottish Government's stated approach over the last decade and more, for example as expressed in the National Performance Framework (NPF) and the Community Empowerment Act. In practice, though, too much policy-making has continued to be top-down and silo-based, and welcome innovation has remained isolated and under-supported.

We don't currently have a public sector culture that rewards and incentivises innovative thinking or risk-taking. There are also too many cases where the needs of the system rather than the individuals they serve has taken precedent. And it is hard not to think of February's Care Review report at this point. Three years in the making, its authors concluded that Scotland's care system is a "complex, fragmented, multi-purpose and multifaceted entity". A system underpinned by 44 pieces of legislation, 19 pieces of secondary legislation and three international conventions. A system that straddles six out of nine Scottish policy areas. The result, say the review's authors, is less a care system than a quagmire of legislation, policy and practice that makes "cohesive operation impossible" and "creates disconnects into which children, young adults and their families can fall." It's an upsetting read but, as the report makes abundantly clear, there is a great opportunity to bring about change. On risk, it has this to say:

“Scotland must therefore broaden its understanding of risk. This is not about tolerating more risk or becoming more risk enabling. It means ensuring Scotland has a more holistic understanding of risk that includes the risk to the child of removing them from

the family. There must be a shift in focus from the risk of possible harm to the risk of not having stable, long term loving relationships.”

The broad sentiment of that statement could be applied across much of Scotland’s public sector. Many reforms of the past decade have not diminished the pressure on public services, with demographics and austerity acting as a heavy weight. Our NHS – a rallying point for the nation in this time of crisis – still needs reform and remains the biggest nut to crack. Its financial model is unsustainable, with health boards increasingly unable to break even and, when I [last reported](#), health accounting for 42 per cent of the Scottish budget and rising. That can’t continue indefinitely without consequences for other public services such as education.

Part of the solution is moving the focus of care away from expensive hospitals and into communities through health and social care integration, with a wide range of medical and care practitioners working closely alongside the local GP. But integration is not happening nearly fast enough. Integration authorities – set up to bring health boards and councils closer together and take control of some services provide by acute hospitals – have struggled to break down the siloed thinking and priorities hardwired into the system. It was there to see in the early days of the Covid-19 outbreak when older people were discharged to care homes to free up hospital beds, apparently without properly understanding the potential impact of the virus on people who live and work there.

The collaborative leadership needed to bring about change isn’t there right now, partly because of the systems in place and partly due to a culture that means chief executives have very little incentive to act any differently. A fundamental issue is that financial planning across the building blocks of our health and social care system – the Scottish Government, NHS Boards, local authorities and the IAs - is not integrated or long-term. At the same time, leaders of local health boards are judged not on integration or how successfully they have provided the best outcomes for people who need support, but on short-term performance and financial targets. Those pressures, and a persistent blame culture that we must all take some responsibility for, has led to high levels of turnover in CEOs and senior managers, making reform even harder to bring about.

Linked to this, the Scottish budget process still focuses on inputs, judging success by the number of police on the streets or the number of nurses in the NHS, rather than the outcomes that public spending achieves. The Scottish Government is very clear on its aspirations for the

country – they're laid out in the National Performance Framework. But it remains difficult to draw a line between, for example, the laudable aim of tackling poverty and how much of the budget is spent on reducing the poverty gap between richest and poorest. The same goes for aims to stimulate economic growth: despite a new, longer budget process it remains very hard for MSPs to scrutinise how money is being spent.

The trade-offs between different elements of the National Performance Framework have also been neglected, whether by focusing on waiting times for healthcare rather than on health and wellbeing, or by investing in carbon-heavy industry and infrastructure rather than on social, economic and environmental sustainability. Before the Covid-19 crisis the First Minister and other world leaders announced a climate emergency, with all the urgency that should entail. But it is a threat to our way of life that remains too intangible for too many – too far in the distant imagination to impinge on our daily routines and desires. Coronavirus has offered a stark contrast. However, the climate crisis continues to gather pace as lockdown eases (despite the temporary cessation of hostilities on our planet) and tackling our reliance on carbon and willingness to degrade our ecosystems will remain the challenge of our time.

And then we have Brexit – all-consuming just a few months ago, now almost forgotten. But the dangers of a no-deal relationship with the rest of Europe remain a real and present threat to our economy, and as things stand the UK government shows no sign of extending the timetable for negotiations. The likely fall in economic activity if December 31st comes and goes without an agreement on the future UK-EU relationship will compound the pressure on Scotland's public finances and public services. And while the impact may be small relative to that of Covid-19, it's hard to see that any additional hit in these times can be justified by any government.

IV So where do we go from here?

The pandemic calls for radical change and may increase the opportunity to bring it about. The Scottish Government and public services are already doing things that would have been unthinkable a short time ago. The Louisa Jordan Covid-19 hospital in Glasgow, for example, was constructed in a matter of weeks, compared to the tortures of getting Edinburgh's new Royal Hospital for Sick Children up and running. The direct comparison is crude but there will be many such lessons to learn from this period.

Meanwhile, in cities, towns and villages across the country individuals have been helping each other out of a sense of solidarity and compassion, often at a real personal cost: how can public services build on and nurture these connections once the freedoms that made it easier to take less of an interest in our near neighbours return?

As the Scottish Government moves on from the immediate efforts to keep people safe and well, effective governance and greater transparency will be critical to navigating our way to a new normal. Far from being things that are nice to have in good times, they are all the more important in periods of turbulence and change.

Good governance means government and public services involving citizens and communities in decisions that will affect their lives, sharing information about the choices and trade-offs available, and reporting in a clear and balanced way about progress. And greater transparency helps to reduce the risk of cynicism and conspiracy theories, making it clear why tough choices are necessary and how the costs and benefits are distributed.

As we emerge from Covid-19, Scotland needs, more than ever, a plan to manage the volatility in its tax take, the risks of the new social security powers, and to ensure the public finances are sustainable. Pre-pandemic, the most recent Medium-Term Financial Strategy contained little on ministers' spending plans and no consideration of how a £1 billion budget shortfall over the next three years could be addressed, or how minister's spending plans linked to the National Performance Framework.

And in spite of promises, we still don't have a consolidated set of public sector accounts showing overall what government owns and what it owes, what it spends and what it receives. We need better. And we need a noisy, wide-ranging and inclusive debate about how much money should go towards tackling poverty, stimulating economic growth or decarbonising our lives.

Parliament and society often struggle to engage with these big systemic issues, in part because it's easier to point to individual failings than to see how the context in which we all work limits our view of what's possible. But we have seen some great examples of civil society coming together in initiatives like citizens' juries on the future of Scotland. And the pandemic is making many of us think about the sort of country we want to live in, how we can tackle inequalities and value the key workers we all rely on. There seems to be a real reluctance to simply go back to the way things were, and we've seen some really inspiring examples of communities getting

together to help each other, like Edinburgh Helping Hands, together with thought-provoking thinking from groups like Common Weal. It feels as though this may be one of those rare times, like the creation of the welfare state after the Second World War, when major change suddenly becomes possible; our challenge is how to make the most of the current moment.

V A time for leadership

What the pandemic has exposed, at a global level, is leadership. In some cases that leadership has been confused, dishonest or just plain incompetent, but in others it's been brave, honest and decisive – and lives have been lost or saved as a result.

We've seen some outstanding leadership across Scotland's public services, from the First Minister's daily briefings to the way the NHS changed course overnight. But leaders need the space to lead every day, not just when we're facing a crisis; that's the only way we'll see real change in the health service and public services that really can contribute to renewal.

'Be kind' has been heard a lot during these pandemic months. Often it can feel throwaway, but the reality is that the need for kindness, collaboration, understanding and compassion is central to better public services.

Accountability matters but there's a once-in-a-generation opportunity to focus on long term change. That will mean being bold, thinking longer term and puncturing the blame culture that we've seen across the NHS in particular, often in the face of complex problems that are beyond the power of one person to solve. That will take patience and brave voices from across the political, business, media and civil spheres. And it's a change that we all have a role in helping to bring about.